

Service Date: August 23, 2001

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

IN THE MATTER of the Commission's	)	
Investigation into the feasibility of a	)	UTILITY DIVISION
Demand Exchange Program to address	)	
Market Challenges faced by Industrial	)	DOCKET NO. D2001.3.30
Customers of Montana Power Company.	)	ORDER NO. 6355c

**SUPPLEMENTAL ORDER**

Background

1. On June 29, 2001, the Commission issued Order 6355 implementing guidelines and procedures for an electrical energy pool pursuant to House Bill 645 (2001). The Commission characterized the guidelines and procedures adopted in Order 6355 as work in progress since the guidelines and procedures were necessarily adopted in a short period of time. The Commission committed to continue to work with interested parties to improve the guidelines and procedures where necessary.

2. On July 12, 2001, Commission staff met informally to discuss electrical energy pool issues with the active parties in this docket: Montana Power Company, PPL Montana, Montana Consumer Counsel, Montana Environmental Information Center, League of Cities and Towns/Montana School Boards Association, Large Customer Group and the Governor's Office participated. Discussions focused on several issues related to the demand exchange component of the electrical energy pool, including bill credits for conservation activities, requiring savings thresholds, weather normalizing, PPL Montana's incentive payments, unique issues associated with customers that have multiple accounts and distribution of demand exchange benefits to industrial customers. Following the meeting, on July 16, 2001, staff e-mailed to all participants a summary of the discussions highlighting areas of general agreement. Staff requested informal comments on whether the summary accurately reflected the discussion and areas of agreement.

3. On August 1, 2001, the Commission proposed to modify and supplement the guidelines and procedures for implementing the electrical energy pool adopted in Order 6355,

based on the July 12 informal meeting and comments. The Commission provided interested persons until August 10, 2001, to file written comments on the proposed changes and additions to the electrical energy pool guidelines and procedures. Montana Power Company and PPL Montana submitted comments.

4. Montana Power Company generally supported the proposed modifications. However, MPC felt that it would be too burdensome to require a customer with a 300 kW load to achieve 60 average kW savings in order to obtain an incentive bill credit. MPC recommended requiring customers to achieve the lesser of 60 average kW or 5 percent kWh savings. MPC also recommended allowing customers who aggregate smaller accounts with larger accounts into a project specific contract to receive incentives for the smaller accounts as defined in the contract. MPC urged the Commission to recognize that volatile market conditions have the potential to affect whether the demand exchange portion of the electrical energy pool can be self-funding, and to explain how administrative costs would be recovered if the program does not produce net benefits.

5. PPL Montana indicated willingness to work with MPC to develop a mutually acceptable method for measuring and verifying net system kWh reductions and project specific kWh reductions that will be the basis of PPL incentive payments. PPL stated that the process could be difficult and require substantial time. PPL stated that it will insist on a 10 percent class-wide kWh reduction pending development of a calculation methodology in cooperation with MPC. With respect to the Commission's proposal to disperse 50 percent of demand exchange benefits in February 2002, PPL commented that under current market conditions there might be insufficient funds in the pool to result in a substantial payment to customers. PPL recommended that the Commission match month-for-month participation in the electrical energy pool with allocations from the pool.

#### Commission Decision

#### Modifications/Additions to Electrical Energy Pool Guidelines

#### Measurement/verification of system kWh savings for PPL Montana incentive payments.

6. PPL Montana will not make incentive payments for savings attributable to hours when PPL Montana's total Montana load obligations exceed the capabilities of its Montana

generating resources. The Commission understands that PPL makes this determination by first determining its total Montana load obligations as the sum of 1) its obligations to MPC under the Wholesale Transition Service Agreements; 2) its obligations to Montana retail aggregators; and 3) its wholesale sales to PPL Energy Plus, LLC, for retail sales to Montana customers. This total load obligation is compared to the actual hourly capability of PPL's generating units located in Montana.

7. MPC and PPL will work to develop a mutually acceptable method of measuring and verifying the net system kWh reductions and project specific contract kWh reductions that will be the basis of PPL incentive payments. MPC must submit an explanation of the method ultimately adopted.

Customer Participation in Electrical Energy Pool

8. A residential or GS-1 customer that has a load averaging, on an annual basis, less than 300 kW must be eligible for an incentive payment in the form of electricity bill credits if the customer's weather adjusted kWh usage in a month (adjusted for the number of days in the billing period) is at least 5 percent lower than the customer's weather adjusted kWh usage in the same month in the previous year (adjusted for the number of days in the billing period). If the customer satisfies the 5 percent threshold in a month, the total kWh reduction for the month must be the basis for the customer's incentive bill credit.

9. Customers that achieve a 12-month billing history for an account after July 1, 2001 must be eligible to be a member of the electrical energy pool and receive bill credits for demonstrated kWh reductions achieved from the time the customer becomes eligible through June 30, 2002.

10. MPC must calculate the weather-adjusted kWh reductions achieved by each member of the electrical energy pool each month using meter-read cycle data. To the extent dollars are available for incentives after covering administrative costs, customers would each receive a single bill credit for qualifying kWh reductions at the end of the program.

11. MPC must prohibit customers with multiple meters from shifting loads from one meter to another in order to obtain an incentive payment for kWh reductions. If a customer shifts loads from one meter to another in order to obtain an incentive payment, the customer may no longer be a member of the electrical energy pool and must not receive an incentive bill credit. MPC must include these terms in project specific contracts with customers.

12. GS-2, irrigation, and street lighting customers, and GS-1 customers with an individual load that averages, on an annual basis, at least 300 kW must be allowed to aggregate multiple accounts in a project specific contract to achieve, on a monthly basis, 1) a 5 percent reduction in kWh use or 2) a reduction of 60 average kW, whichever is less, to qualify for an incentive bill credit. These customers must enter a project specific contract with MPC to be eligible for incentive bill credits. If these customers aggregate small accounts (under 300 kW) into the project specific contract, those accounts may receive incentives as defined in the contract rather than as generally defined for residential and GS-1 accounts with loads less than 300 kW. Project specific contracts may be modified to incorporate additional accounts during the effective period of the electrical energy pool.

13. MPC must require that customers remain members of the electrical energy pool at the same account location for the entire period that the pool is in effect in order to receive an incentive bill credit. If a customer terminates service at their participating account prior to June 30, 2002, MPC must not provide an incentive bill credit.

Promotion of demand-exchange program

14. MPC must promote the demand-exchange portion of the electrical energy pool as outlined in Order 6355 and convey to customers the goal of paying customers for conserved electricity by providing a bill credit at the end of the program (August/September 2002). MPC must not guarantee the bill credit rate that would be used to determine the credit since it is possible that payments from PPL Montana will not be sufficient to cover program costs. If actual participating customer energy savings, accrued PPL Montana incentive payments, large customer payments and administrative costs allow, customer bill credits based on a rate of \$0.01 per kWh or greater must be provided.

Dispersing monetized electrical demand exchange benefits

15. MPC must apply incentive payments from PPL to administrative costs first and then to industrial customer assistance and incentive bill credits for conservation. To the extent funds are sufficient, in February 2002, MPC must distribute 50 percent of all accrued incentive payments made to MPC for the first six months of the pool, from any source, to industrial customers receiving an allocation from the electrical energy pool. The distribution of the funds must reflect the Commission's approved allocations, on a month-by-month basis, of power provided to the electrical energy pool by generators.

16. The Commission recognizes that volatile market conditions may affect whether the demand exchange component of the electrical energy pool can be self-funding. Pursuant to HB 645, MPC is entitled to recover reasonably incurred costs associated with its role as the administrator of the electrical energy pool. If the demand exchange portion of the electrical energy pool is not self-funding, the rate specified in MPC's tariff schedule EEP-1 will need to be adjusted to recover administrative costs. PPL insists that the residential and small commercial (GS-1 under 300 kW) customer classes must demonstrate a 10 percent kWh reduction until there is an agreement between MPC and PPL on a method for measuring and verifying kWh reductions for these customer classes. PPL also commented that developing such a method could take "a substantial period of time." If MPC is significantly concerned about the magnitude of administrative costs and the uncertainty of incentive payments from PPL, MPC should file a request to increase the EEP-1 tariff rate to no more than \$37 per mWh. Alternatively, MPC should not promote the demand exchange program to residential and GS-1 customers with loads that average less than 300 kW until it has reached agreement with PPL on a method for verifying kWh reductions.

17. MPC must direct all incentive payments received from generators toward achieving the statutory goals of the electrical energy pool. Any funds not applied to administrative costs must be used completely to assist industrial customers or pay incentives to conserving customers. MPC must submit a report to the Commission before October 1, 2002 describing the results of the electrical energy pool. The report should document which customers purchased electrical energy under the EEP-1 tariff, how much energy was purchased at the tariffed rate, how much conservation resource was acquired during the program period by various customer classes, the amount of incentive payments received from generators for conservation, the amount of administrative costs associated with the program and an explanation of administrative costs, the amount paid for conservation in the form of customer bill credits, and the amount of distribution bill credits provided to industrial customers.

### **Conclusions of Law**

1. The Commission may require default suppliers, distribution service providers and public utilities to participate in an electrical energy pool. HB No. 645, Chapter 582, Section 1 (1)(a), 2001 session.

2. The Montana Power Company must administer the electrical energy pool. HB No. 645, Chapter 582, Section 1 (9), 2001 session.

3. The Commission's authority to implement the electrical energy pool, and to issue this order, is contained at HB No. 645, Chapter 582, Section 1 (9), 2001 session.

**Order**

1. The directions to MPC discussed above are adopted by reference in this Order section. MPC must comply with the directions described above.

DONE AND DATED this 21st day of August, 2001, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GARY FELAND, Chairman

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JAY STOVALL, Vice Chairman

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BOB ANDERSON, Commissioner

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MATT BRAINARD, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Rhonda J. Simmons  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision.  
A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.